

FDIC State Profile

Winter 2004

North Dakota

Although employment declined slightly, North Dakota's economy remains relatively strong.

- North Dakota's economy lost 300 jobs in the third quarter of 2004, as a loss of 1,900 government jobs was offset by gains in all other sectors. However, this quarterly loss was only the second in the last two years, during which 4,000 jobs were added to the economy (See Chart 1).
- Manufacturing employment has increased for three consecutive quarters, restoring it to the year-ago level. However, North Dakota's economy is relatively insensitive to the performance of the manufacturing sector, as it amounts to only 7.1 percent of total employment, ranking 41st among the states.
- North Dakota's unemployment rate increased slightly in the third quarter, from 3.0 percent to 3.3 percent, but continued to be the second lowest in the nation.

Banking performance remains solid.

- As North Dakota's economy has rebounded, so has asset quality for institutions headquartered in the state. Delinquency and net charge-off ratios declined markedly during the past year (See Table 1).
- The improving economy has spurred loan demand. Loans as a percentage of assets increased for the second straight year to a record level of 67.8 percent.
- Overall earnings performance remained positive; in fact, North Dakota had no unprofitable institutions as of third quarter 2004.

The long-term trend of core funding erosion has resumed.

- In the 1990s, a confluence of competitive factors, ranging from rapidly increasing stock prices to strong deposit growth in large banks and credit unions, made core deposits more difficult to acquire for community institutions.¹ As a result, core funding in these institutions dropped steadily in the 1990s (See Chart 2).

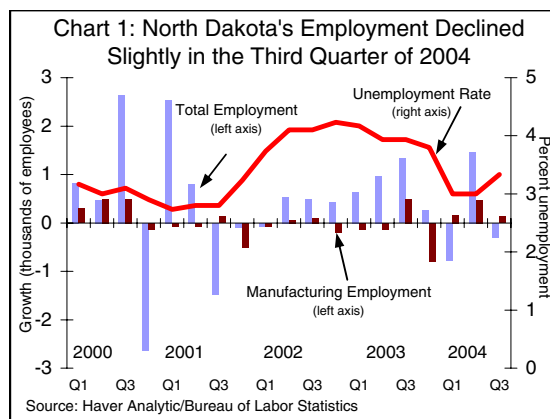
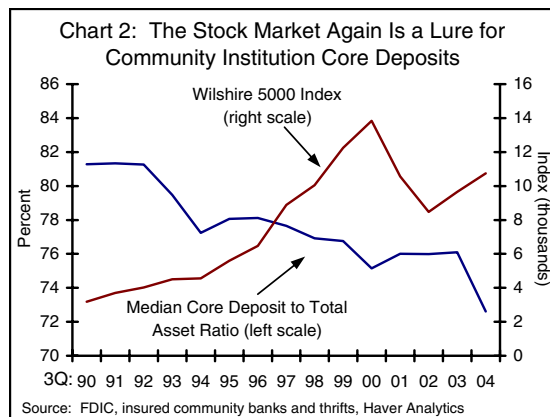


Table 1: Asset Quality and Net Income Improved While Capital Levels and Interest Margins Declined Slightly

	September				
	2004	2003	2002	2001	2000
Capital					
Tier 1 Leverage Capital Ratio	9.35	9.45	9.47	9.62	9.78
Asset Quality					
Past Due Loan Ratio	1.39	1.98	1.90	2.09	1.96
Net Charge-off Rate	0.05	0.09	0.08	0.08	0.08
Earnings					
Pretax Return on Assets	1.57	1.53	1.59	1.58	1.62
Net Interest Margin	4.12	4.14	4.32	4.20	4.40

Source: FDIC. Figures are median values.



¹"Core deposits" include savings, checking, and money market accounts, as well as time deposits of less than \$100,000. These are usually considered more stable funding sources.

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- Stock market weaknesses in early 2001 and 2002 helped to stabilize core funding temporarily, as funds flowed from the markets into the safety of insured deposits.
- However, recent improvement in the stock markets again is luring funds out of community banks, and the long-term downward trend in core funding appears to have resumed. Core funds now make up just 72.6 percent of community bank assets in North Dakota, an all-time low.

Recent population losses continue a long-term trend of depopulation of rural counties.

- North Dakota's population declined 1.4 percent from 2000 to 2003. It was the only state to lose population during that period (See Table 2).
- Population losses were widespread; forty-nine of North Dakota's 53 counties lost population from 2000 to 2003. However, depopulation in the state is largely a rural issue, as the state's metropolitan areas added population (See Map 1).
- Sheridan County, which has the second highest proportion of farmers in the state, lost nearly 10 percent of its population from 2000 to 2003. Another 21 counties lost more than 5 percent of their population in the same period. By contrast, Burleigh County, where **Bismarck** is located, and Cass County, where **Fargo** is located, both gained more than 3 percent during the same period.
- Recent population losses are a continuation of decades of migration from agriculturally-dependent counties, as North Dakota reached its maximum population in 1930.
- Rural counties that are losing population may be in danger of losing economic viability, as shrinking tax rolls make it difficult to maintain essential infrastructure, such as county government and schools.

The number of rural bank offices has increased slightly despite depopulation.

- Despite declining population, weak economic growth and lower levels of new bank activity, the rate of decline in the number of hometown institutions in rural North Dakota has been less than the state's urban areas during the past decade.
- However, rural North Dakota has seen an increase in its banking presence despite a net loss of 25 headquartered institutions. The number of banking offices operating in rural North Dakota increased from 203 to 209 in the 10 years ending June 2004 (See Chart 3).
- Faced with weak local market prospects, rural North Dakota institutions are increasingly operating branches in urban areas. As a result, the proportion of branches

located in urban areas has increased from 7.9 percent in 1994 to 19.2 percent in 2004. Currently, 17 rural institutions, representing 24 percent of all rural North Dakota institutions, are operating 38 branch offices in urban areas.

Table 2: North Dakota's Population Continued to Decline During 2000 - 2003

Counties	2003 Estimated Population	Change 2000-2003
49 declining	417,204	-14,724
4 growing	216,633	6,361
State Total	633,837	-8,363

Source: U.S. Census

Map 1: Rural Depopulation Continued Since the 2000 Census

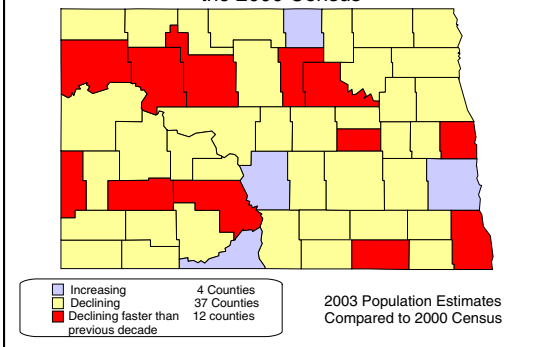
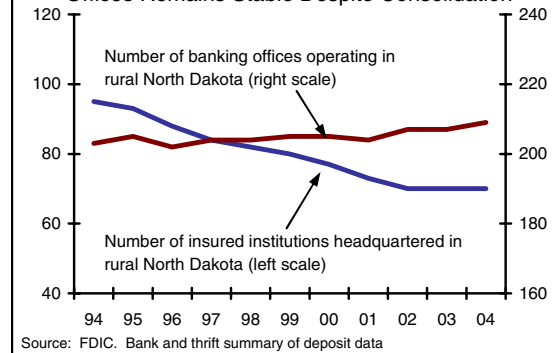


Chart 3: In Rural North Dakota, Number of Bank Offices Remains Stable Despite Consolidation



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North Dakota at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	103	105	107	110	115
Total Assets (in thousands)	20,669,674	20,144,981	19,525,455	18,719,708	18,795,334
New Institutions (# < 3 years)	0	0	1	1	1
New Institutions (# < 9 years)	3	2	2	3	3
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.35	9.45	9.47	9.62	9.78
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.39%	1.98%	1.90%	2.09%	1.96%
Past-Due and Nonaccrual >= 5%	8	13	12	11	13
ALLL/Total Loans (median %)	1.47%	1.54%	1.61%	1.61%	1.65%
ALLL/Noncurrent Loans (median multiple)	2.08	1.77	1.55	1.55	1.74
Net Loan Losses/Loans (aggregate)	0.36%	0.55%	0.54%	0.84%	0.79%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	0	0	0	1	4
Percent Unprofitable	0.00%	0.00%	0.00%	0.91%	3.48%
Return on Assets (median %)	1.22	1.17	1.21	1.15	1.21
25th Percentile	0.93	0.90	0.95	0.86	0.98
Net Interest Margin (median %)	4.12%	4.14%	4.32%	4.20%	4.40%
Yield on Earning Assets (median)	5.60%	6.00%	6.75%	8.07%	8.28%
Cost of Funding Earning Assets (median)	1.47%	1.78%	2.44%	3.92%	3.89%
Provisions to Avg. Assets (median)	0.09%	0.13%	0.13%	0.12%	0.13%
Noninterest Income to Avg. Assets (median)	0.50%	0.52%	0.47%	0.48%	0.45%
Overhead to Avg. Assets (median)	2.74%	2.80%	2.75%	2.71%	2.77%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	83.51%	79.90%	78.70%	78.30%	76.17%
Loans to Assets (median %)	67.79%	66.65%	65.72%	65.78%	62.82%
Brokered Deposits (# of Institutions)	26	21	20	17	18
Bro. Deps./Assets (median for above inst.)	3.10%	1.93%	1.81%	1.13%	2.93%
Noncore Funding to Assets (median)	16.97%	12.95%	13.61%	12.83%	13.87%
Core Funding to Assets (median)	71.13%	74.82%	75.00%	75.08%	74.46%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	82	83	85	88	90
National	13	14	15	15	17
State Member	5	5	4	4	4
S&L	0	0	0	0	0
Savings Bank	3	3	3	3	4
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	83	6,087,294	80.58%	29.45%	
Fargo-Moorhead ND-MN	12	12,301,926	11.65%	59.52%	
Bismarck ND	6	1,030,958	5.83%	4.99%	
Grand Forks ND-MN	2	1,249,496	1.94%	6.05%	